

# **MT. SAN ANTONIO COMMUNITY COLLEGE DISTRICT**

Audit Report

## **HEALTH FEE ELIMINATION PROGRAM**

Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session,  
and Chapter 1118, Statutes of 1987

*July 1, 2000, through June 30, 2002*



**STEVE WESTLY**  
California State Controller

March 2004



STEVE WESTLY  
California State Controller

March 30, 2004

Christopher C. O'Hearn, Ph.D.  
President and Chief Executive Officer  
Mt. San Antonio Community College District  
1100 North Grand Avenue  
Walnut, CA 91789

Dear Dr. O'Hearn:

The State Controller's Office has completed an audit of the claims filed by Mt. San Antonio Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2000, through June 30, 2002.

The district claimed \$511,864 for the mandated program. Our audit disclosed that \$236,770 is allowable and \$275,094 is unallowable. The unallowable costs occurred because the district overclaimed costs and understated claimed revenue offsets. The district was paid \$94,564. Allowable costs claimed in excess of the amount paid total \$142,206.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original Signed By:*

VINCENT P. BROWN  
Chief Operating Officer

VPB:jj

cc: Linda Baldwin  
Director of Fiscal Services  
Mt. San Antonio Community College District  
Ed Monroe, Program Assistant  
Fiscal Accountability Section  
Chancellor's Office  
California Community Colleges  
Jeannie Oropeza, Program Budget Manager  
Education Systems Unit  
Department of Finance  
Charles Pillsbury  
School Apportionment Specialist  
Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Mt. San Antonio Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session (E.S.), and Chapter 1118, Statutes of 1987) for the period of July 1, 2000, through June 30, 2002. The last day of fieldwork was December 9, 2003.

The district claimed \$511,864 for the mandated program. The audit disclosed that \$236,770 is allowable and \$275,094 is unallowable. The unallowable costs occurred because the district overclaimed costs and understated claimed revenue offsets. The district was paid \$94,564. Allowable costs claimed in excess of the amount paid total \$142,206.

## Background

Chapter 1, Statutes of 1984, 2<sup>nd</sup> E.S., repealed *Education Code* Section 72246, which had authorized community college districts to charge a health fee for providing health supervision and services, direct and indirect medical and hospitalization services, and operation of student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 1987, which would reinstate the community college district's authority to charge a health fee as specified. Chapter 1118, Statutes of 1987, amended *Education Code* Section 72246 to require any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 1, Statutes of 1984, 2<sup>nd</sup> E.S., imposed a "new program" upon community college districts by requiring any community college district that provided health services for which it was authorized to charge a fee pursuant to former *Education Code* Section 72246 in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applies to all community college districts that levied a health services fee in FY 1983-84, regardless of the extent to which the health services fees collected offset the actual costs of providing health services at the FY 1983-84 level. On April 27, 1989, the COSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, and required them to maintain that level in FY 1987-88 and each fiscal year thereafter.

*Parameters and Guidelines*, adopted by the COSM on August 27, 1987 (and last amended May 25, 1989), establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.

## **Objective, Scope, and Methodology**

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> E.S., and Chapter 1118, Statutes of 1987) for the period of July 1, 2000, through June 30, 2002.

The auditor performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Mt. San Antonio Community College District claimed \$511,864 for costs of the legislatively mandated Health Fee Elimination Program. The audit disclosed that \$236,770 is allowable and \$275,094 is unallowable.

For FY 2000-01, the district was paid \$52,526 by the State. The audit disclosed that \$236,770 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$184,244, will be paid by the State based on available appropriations.

For FY 2001-02, the district was paid \$42,038 by the State. The audit disclosed that \$0 is allowable. The amount paid in excess of allowable costs claimed, totaling \$42,038, should be returned to the State.

**Views of  
Responsible  
Official**

The SCO issued a draft audit report on February 18, 2004. Linda Baldwin, Director of Fiscal Services, responded through a telephone conversation on March 17, 2004, disagreeing with the audit results. Ms. Baldwin stated that the district would not be providing a written response.

**Restricted Use**

This report is solely for the information and use of Mt. San Antonio Community College District, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original Signed By:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

# Schedule 1— Summary of Program Costs July 1, 2000, through June 30, 2002

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference <sup>1</sup></u>
<u>July 1, 2000, through June 30, 2001</u>				
Health services cost	\$ 912,010	\$ 816,996	\$ (95,014)	Findings 1, 2
Less authorized health fee revenues	<u>(530,162)</u>	<u>(530,162)</u>	<u>—</u>	
Subtotals	381,848	286,834	(95,014)	
Less offsetting savings/reimbursements	<u>—</u>	<u>(50,064)</u>	<u>(50,064)</u>	Finding 3
Total costs	<u>\$ 381,848</u>	236,770	<u>\$(145,078)</u>	
Less amount paid by the State		<u>(52,526)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 184,244</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Health services cost	\$ 944,891	\$ 831,469	\$(113,422)	Findings 1, 2
Less authorized health fee revenues	<u>(814,875)</u>	<u>(814,875)</u>	<u>—</u>	
Subtotals	130,016	16,594	(113,422)	
Less offsetting savings/reimbursements	<u>—</u>	<u>(53,217)</u>	<u>(53,217)</u>	Finding 3
Total costs	130,016	(36,623)	(166,639)	
Adjustment to increase allowable costs to zero	<u>—</u>	<u>36,623</u>	<u>36,623</u>	
Adjusted net costs	<u>\$ 130,016</u>	—	<u>\$(130,016)</u>	
Less amount paid by the State		<u>(42,038)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (42,038)</u>		
<u>Summary: July 1, 2000, through June 30, 2002</u>				
Health services cost	\$ 1,856,901	\$1,648,465	\$(208,436)	
Less authorized health fee revenues	<u>(1,345,037)</u>	<u>(1,345,037)</u>	<u>—</u>	
Subtotals	511,864	303,428	(208,436)	
Less offsetting savings/reimbursements	<u>—</u>	<u>(103,281)</u>	<u>(103,281)</u>	
Total costs	511,864	200,147	(311,717)	
Adjustment to increase allowable costs to zero	<u>—</u>	<u>36,623</u>	<u>36,623</u>	
Adjusted net costs	<u>\$ 511,864</u>	236,770	<u>\$(275,094)</u>	
Less amount paid by the State		<u>(94,564)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 142,206</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## **FINDING 1— Utilities costs overclaimed**

The district overclaimed utilities costs by \$91,968.

The error occurred because the district claimed utilities costs that it also included in the indirect cost pool when calculating the federally approved indirect cost rate for both years. Consequently, the costs were being directly charged to the mandate and also allocated to various other programs as indirect costs.

*Parameters and Guidelines* allows the claimant to be reimbursed only for increased costs. Costs claimed as indirect costs cannot also be claimed as direct costs.

A summary of the unallowable costs is as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Audit adjustment	<u>\$(34,920)</u>	<u>\$(57,048)</u>	<u>\$(91,968)</u>

### Recommendation

The district should establish procedures to ensure that costs allocated to various programs through the indirect cost rate are not also being claimed as direct costs.

## **FINDING 2— Indirect costs overclaimed**

The district overclaimed indirect costs by \$116,468.

The error occurred because the district applied the federally approved indirect cost rate of 44.3% to the total direct costs claimed instead of applying it to direct salaries and wages. The district used direct salaries and wages as the base to calculate the indirect cost rate; therefore, the 44.3% rate could only be applied against salaries and wages when computing indirect costs.

The auditor recomputed the indirect costs for both fiscal years by multiplying the allowable salaries and wages by the rate of 44.3%.

A summary of the adjustment to indirect costs is as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Audit adjustment	<u>\$(60,094)</u>	<u>\$(56,374)</u>	<u>\$(116,468)</u>

*Parameters and Guidelines* allows the claimant to be reimbursed only for increased costs claimed as indirect costs. Costs claimed as indirect costs cannot also be claimed as direct costs.



Recommendation

The district should establish procedures to ensure that indirect costs claimed are computed using a federally approved rate prepared in accordance with OMB Circular A-21 or the SCO's alternate methodology using Form FAM-29C.

**FINDING 3—  
Offsetting revenues  
understated**

The district understated offsetting revenues relating to costs claimed by \$103,281 because it did not deduct clinical receipts recorded in revenue account number 8890.

A summary of understated offsetting revenues is as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Audit adjustment	<u>\$(50,064)</u>	<u>\$(53,217)</u>	<u>\$(103,281)</u>

*Parameters and Guidelines* specifies that any offsetting savings or reimbursements received by the district from any source as a result of the mandate must be identified and deducted so that only net district health services costs are claimed.

Recommendation

The district should ensure that all applicable revenues are offset on its claims against its mandated program costs.

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